

Denmark: Covered bonds and valuation - 1

- 7 specialized mortgage banks (CB issued corresponding to more than 1,5 times GDP) and 1 universal bank with CB-license
- Specialized MB`s:
 - Narrow scope of business (only lending against mortgages and financed by CB)
 - Only lending within strict LTV`s
 - Balance principle applies to all business
 - Special capital center structure
 - General banking regulation applies in addition to a special Act on mortgage financing with a more strict regulation. Approx. 10 executive orders based on the mortgage Act issued by DFSA. Detailed executive orders on valuation of different types of real estate.
 - Market value principle

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- Valuation to be performed by employee of MB (necessary qualifications and sufficient experience with the type of real estate in question and with the actual real estate market in question (independent of credit granting proces).
- Valuation can be outsourced with the same requirements to qualifications and experience mentioned above applying.
- In case of outsourcing: requirement for ongoing samples of the appraised properties to be taken by the mortgage bank (minimum 5 percent).

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- DFSA employs skilled property appraisers
- These appraisers performs inspections of mortgaged real estate on ongoing basis to check valuation (including actually inspecting the real estate in question).
- If DFSA finds that the valuation exceeds market value and the new lending is up to the LTV-limitation, DFSA can require the lending to be rearranged. Issued CB`s corresponding to excess valuation to be removed from the market, and the lending in excess to be financed by own funds of the MB instead.
- For existing lending exceeding the LTV-limitation the MB must add supplementary security to the capital centre (cover pool). Due to the structure of MB`s a loan can`t be replaced since there is a direct connection between a loan and the corresponding bonds behind the loan (matchfunding principle).